

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

| | | | |
|-------------------------------------|--|-----------------------------|-----------------|
| Applicant: | Samaritan House (SH) 1511 Claremont Street San Mateo, CA 94402 San Mateo County | Amount Requested: | \$477,000 |
| | | Requested Loan Term: | 15 years |
| | | Date Requested: | August 28, 2008 |
| | | Resolution Number: | HII-228 |
| Project Site: | 19 West 39 th Ave., San Mateo, CA 94403 | | |
| Facility Type: | Community Clinic | | |
| Prior HELP II Loan Borrower: | No | | |

Background: SH, established in 1974, provides a broad range of services including medical care, case management, food, shelter and employment services for low-income residents in San Mateo County. SH operates two free Medical Clinics in San Mateo and Redwood City.

Uses of Loan Proceeds: Loan proceeds will be used to refinance an existing 7.5% fixed interest rate loan, plus avoid a balloon payment due on this loan in August 2017. With the proposed HELP II loan, SH's cash flow will improve by approximately \$550 per month.

Financing Structure

- 15-year fixed rate loan.
- 180 equal monthly payments of approximately \$3,294.
- Gross revenue pledge.
- Second lien on a property located at 19 West 39th Avenue, San Mateo, CA 94403.
- Combined loan to value (CLTV) not to exceed 95% (Estimated CLTV is 38%)

Financial Overview: SH's income statement appears to show mostly positive operating results over the reporting period. SH's balance sheet appears to display good liquidity and a solid proforma debt service coverage of 8.67x, which exhibits SH's ability to repay the proposed HELP II loan. SH recently obtained a \$3.5 million, 2% loan from the David and Lucile Packard Foundation with repayment obligations beginning June 2009. The addition of this obligation appears to lower SH's proforma debt service coverage to an acceptable 1.19x.

Sources of Funds

| | |
|----------------|------------------|
| HELP II Loan | \$477,000 |
| Borrower Funds | <u>5,000</u> |
| Total Sources | <u>\$482,000</u> |

Uses of Funds

| | |
|------------------------|------------------|
| Refinance current loan | \$469,000 |
| Financing costs | <u>13,000</u> |
| Total Uses | <u>\$482,000</u> |

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan for Samaritan House in an amount not to exceed \$477,000, for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

August 28, 2008

Samaritan House (SH)

Resolution Number: HII-228

I. PURPOSE OF FINANCING

***Refinance Current Loan* \$ 469,000**

SH intends to refinance an existing loan with Borel Bank and Trust located in San Mateo, California. Funded in 2002, the original loan was used to purchase the property located at 19 West 39th Avenue in San Mateo (also known as Samaritan House Free Clinic of San Mateo). This clinic provides primary care medical services, including dentistry and a variety of specialty services.

The existing loan has a fixed interest rate of 7.5%, monthly payments of \$3,846 and a balloon payment due in 2017. The proposed refinancing will reduce SH's interest rate from 7.5% to 3.0%, thus reducing its monthly payment by approximately \$550. In addition, this refinancing will avoid the aforementioned balloon payment of \$327,000 due in 2017.

The proposed HELP II loan will be in the 2nd lien position, behind the existing 1st lien held by the County of San Mateo in the amount of \$178,000. This loan has a deferred payment feature and is due in full in 2031. SH's has submitted a recent appraisal of the property securing the proposed HELP II, which indicates an estimated value of \$1.9 million, leading to a combined loan to value ratio of 35%, well below the maximum of 95% per HELP II Guidelines.

| | | |
|--|--------------|----------------------|
| <i>Financing Costs</i> | | <u>13,000</u> |
| Appraisal fee | \$2,000 | |
| Authority fee @ 1.25% of loan amount | 5,963 | |
| Title and escrow fees..... | <u>5,037</u> | |

***Total Uses of Funds* \$ 482,000**

II. FINANCIAL STATEMENTS AND ANALYSIS

Samaritan House Statement of Activities (Unrestricted)

| | <u>For the year ended June 30</u> | | |
|---|-----------------------------------|----------------------------|----------------------------|
| | <u>2007</u> | <u>2006</u> | <u>2005</u> |
| <u>SUPPORT AND REVENUE</u> | | | |
| Net assets released from restrictions | \$ 3,288,149 | \$ 2,037,707 | \$ 2,300,527 |
| Donations In-Kind Support | 1,150,744 | 877,050 | - |
| Contributions | 890,738 | 988,638 | 2,099,548 |
| Grants | 242,896 | 210,385 | 123,125 |
| Other revenue | 220,060 | 193,826 | 168,629 |
| Fundraising (net) | 161,250 | 142,510 | 76,271 |
| Total support and revenue | <u>5,953,837</u> | <u>4,450,116</u> | <u>4,768,100</u> |
| <u>EXPENSES</u> | | | |
| Salaries and related expenses | 2,725,666 | 2,586,803 | 2,786,688 |
| In-kind services | 1,104,994 | 877,050 | - |
| Rent | 202,886 | 184,892 | 189,954 |
| Professional services | 178,888 | 75,446 | 25,264 |
| Medical clinic supplies | 151,892 | 132,746 | 109,789 |
| Office expense | 148,032 | 131,732 | 159,608 |
| Depreciation and amortization | 130,334 | 118,995 | 133,584 |
| Insurance and taxes | 129,810 | 106,786 | 98,755 |
| Repairs and maintenance | 74,728 | 119,265 | 87,941 |
| Postage and printing | 73,971 | 60,087 | 55,656 |
| Interest | 51,265 | 49,029 | 47,279 |
| Food, clothing, education and shelter | 47,279 | 56,940 | 93,265 |
| Rental and emergency assistance | 29,673 | 24,838 | 26,129 |
| Transportation | 25,548 | 28,436 | 32,761 |
| Equipment rental | 18,087 | 9,339 | 11,259 |
| Marketing | 6,325 | 1,803 | 11,488 |
| Training | 4,509 | 4,719 | 4,833 |
| Recruitment | - | 1,200 | 1,029 |
| Total expenses | <u>5,103,887</u> | <u>4,570,106</u> | <u>3,875,282</u> |
| Change in unrestricted net assets | 849,950 | (119,990) | 892,818 |
| Unrestricted net assets beginning of year | <u>3,768,874</u> | <u>3,888,864</u> | <u>2,996,046</u> |
| Unrestricted net assets end of year | <u><u>\$ 4,618,824</u></u> | <u><u>\$ 3,768,874</u></u> | <u><u>\$ 3,888,864</u></u> |

**Samaritan House
Statement of Financial Position**

| | As of June 30 | | |
|------------------------------|---------------|--------------|--------------|
| | 2007 | 2006 | 2005 |
| <u>ASSETS</u> | | | |
| Cash and cash equivalent | \$ 254,653 | \$ 88,861 | \$ 842,233 |
| Investments | 1,469,041 | 1,125,632 | 697,347 |
| Trust fund/client fund | 285,343 | 304,357 | 220,923 |
| Accounts receivable | 3,453 | 3,303 | 7,589 |
| Bequests receivable | - | - | 505,555 |
| Grants receivable | 306,756 | 313,103 | 161,790 |
| Prepaid expenses | 80,179 | 77,493 | 69,599 |
| Total Current Assets | 2,399,425 | 1,912,749 | 2,505,036 |
| Property and equipment - net | 4,856,292 | 4,892,367 | 2,639,886 |
| Construction in progress | 389,303 | - | - |
| Deposits | 20,000 | 20,000 | 108,550 |
| Total Assets | \$ 7,665,020 | \$ 6,825,116 | \$ 5,253,472 |

LIABILITIES AND NET ASSETS

| | | | |
|-----------------------------------|--------------|--------------|--------------|
| Accounts payable | \$ 91,494 | \$ 81,064 | \$ 79,836 |
| Accrued expenses | 215,080 | 195,170 | 191,527 |
| Current portion of long-term debt | 37,836 | 33,570 | 16,754 |
| Deferred revenue | 44,715 | 37,545 | 60,500 |
| Trust fund/client fund | 285,343 | 304,357 | 220,923 |
| Tenant deposit | - | - | - |
| Total Current Liabilities | 674,468 | 651,706 | 569,540 |
| Long-term Liabilities | 2,371,728 | 2,404,536 | 795,068 |
| Total Liabilities | 3,046,196 | 3,056,242 | 1,364,608 |
| Undesignated | 4,354,487 | 3,542,037 | 3,888,864 |
| Board designated reserve | 264,337 | 226,837 | - |
| Total Unrestricted net assets | 4,618,824 | 3,768,874 | 3,888,864 |
| Total Liabilities & Net Assets | \$ 7,665,020 | \$ 6,825,116 | \$ 5,253,472 |

FINANCIAL RATIOS:

| | <u>Proforma (a)</u> | | | |
|----------------------------------|----------------------------|--------------|---------------|--------------|
| Debt Service Coverage (x) | 8.67 | 12.16 | 0.73 | 16.98 |
| Debt/Unrestricted Net Assets (x) | 0.64 | 0.52 | 0.65 | 0.21 |
| Margin (%) | | 14.28 | (2.70) | 18.72 |
| Current Ratio (x) | | 3.56 | 2.93 | 4.40 |

(a) Recalculates 2007 audited results to include the impact of this proposed financing. If the \$3.5 million Packard Foundation loan is included in this calculation, the estimated debt service coverage ratio would be 1.19x.

Financial Discussion – Statement of Activities (Income Statement)

The income statement appears to show mostly positive operating results for SH over the reporting period.

SH has maintained healthy operations while simultaneously growing the organization to meet the community's needs. SH is primarily supported by contributions, government contracts, and foundation grants/community organization support. During FY 2005 through 2007, SH's total revenues increased by 25%, largely due to bequests from individual volunteers in SH's programs. Based on unaudited financials for the interim period ending June 30, 2008, SH's revenue stream appears to be improving, with unaudited revenue totals for 2008 at just above \$6 million. SH expects operating results to continue in improvement due to the consolidation of six of their locations into four – as more particularly described in the financial discussion below.

Important Facts to Note:

- In FY 2007, SH reported an increase in unrestricted net assets of \$850,000, representing a solid margin of 14%. Total revenue increased from \$4.4 million in FY 2006 to \$6 million in FY 2007, partly due to the official start of SH's capital campaign in early 2007. Additionally, temporarily restricted funds were released to be spent on the free clinic and the Pacific Boulevard capitol project (mentioned below).
- During FY 2006, SH reported an operating deficit of (\$120,000), primarily a result of an absence of bequest income during FY 2006 and less net assets released from restrictions than in FY 2005. Additionally, SH used surplus funds from the prior year to begin the dental program at the Redwood City Clinic and deferred maintenance and fundraising costs related to the initial phases of the capital campaign during FY 06.
- During FY 2005, SH reported an increase in unrestricted net assets of \$892,000, representing a solid margin of 18%.

Financial Discussion – Statements of Financial Position (Balance Sheet)

SH's balance sheet seems to display good liquidity and a solid proforma debt service coverage of 8.67x, which demonstrate SH should be capable of repaying the proposed HELP II loan.

Over the reporting period, SH has invested significantly in fixed assets, while maintaining solid cash reserves. SH purchased an 11,000 square foot facility in October 2005 (located on Pacific Boulevard in San Mateo County) to replace two existing facilities and consolidate

their operations, with an estimated savings of approximately \$70,000 to \$100,000 per year. This property requires major renovation and will provide 4,000 additional square feet of usable space. Financing for this renovation was recently received in the form of an unsecured loan in the amount of \$3.5 million with a 2% rate from the David and Lucile Packard Foundation Program Related Investment (PRI) Fund. SH expects to repay a portion of this loan from the sale of a current building owned by SH, which is currently listed for sale and is expected to net approximately \$1.5 million in proceeds. In addition, SH expects to raise significant funds over the next five years from its capital campaign efforts to pay off the balance of the PRI loan.

Important Facts to Note:

- In FY 2007, SH reported total unrestricted net assets of \$4,354,000, a 4% increase over FY 2006. SH appears to have adequate liquidity with a 3.56x current ratio, supported by significant cash/cash equivalents of \$255,000, plus significant investments of \$1.46 million.
- With improved profitability in 2007, SH's balance sheet is stronger, with debt service coverage 12.12x and proforma debt service coverage ratio of 8.67x with the proposed HELP II loan.
- Using audited FY 2007 figures and once payments begin on the PRI loan in June 2009, SH has a projected future debt service coverage ratio of 1.19x and debt to unrestricted net assets increases to 1.40x.

III. ORGANIZATION

Background

SH was established in 1974 and provides a broad range of services, including medical care, case management, food, shelter and employment services for low-income residents in San Mateo county. All services are provided free of charge for low-income families. Approximately 96% of its revenue comes from community support. SH operates two Free Medical Clinics in San Mateo and Redwood City. The clinics are funded by a strong mix of grant funding, including financial and in-kind funding from the local hospital district. Neither clinic receives any kind of insurance or reimbursement funding, including Medi-Cal. Each clinic provides primary and specialty care for uninsured, low-income residents. The two clinics employ only eight staff members, yet serve over 9,000 patients each year.

Licenses

SH is licensed by The Department of Public Health Services to operate the project property as a free clinic.

IV. OUTSTANDING DEBT

| <u>Date Issued</u> | <u>Original Amount</u> | <u>Amount Outstanding* As of June 30, 2007</u> | <u>Estimated Amount Outstanding after Proposed Financing</u> |
|--|----------------------------|--|--|
| Existing Long-Term Debt: | | | |
| Wells Fargo Bank | \$1,650,000 | \$1,618,645 | \$1,618,645 |
| Borel Bank & Trust | 520,000 | 479,207 | 0 |
| County of San Mateo | 178,808 | 178,808 | 178,808 |
| San Mateo County Housing & Community Services | 135,000 | 97,859 | 97,859 |
| Proposed CHFFA HELP II, 2008 | | N/A | 477,000 |
| TOTAL DEBT | | <u>\$2,374,519</u> | <u>**\$2,372,312</u> |

*Includes current portion of long-term debt.

** Does not include \$3.5 million PRI debt acquired after the June 30, 2007 audit was prepared.

V. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: Samaritan House has provided a description of its savings pass through in **Exhibit A**.
- Community Service Requirement: Samaritan House has certified that the services of the Facility will be made available to all persons residing or employed in the area served in **Exhibit B**.
- Religious Due Diligence
- Legal Review

VI. STAFF RECOMMENDATION

Staff recommends approval of a HELP II loan for Samaritan House in an amount not to exceed \$477,000 for a term not to exceed 15 years, and contingent upon financing terms acceptable to the Authority.